



DEFENSE REFORM INITIATIVE

PERFORMANCE METRICS AND SCORECARD

FINAL REPORT
EXECUTIVE SUMMARY

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This report presents the results of the project entitled *Defense Reform Initiative Performance Metrics and Scorecard*, conducted by the contractor, in cooperation with the Defense Reform Initiative Office, Office of the Secretary of Defense. The project was conducted during the period of December 1999 to April 2000, in response to a Request for Proposals issued November 23, 1999, and contract number GS-23F-9758H, order number DASW01-00-F-3885.

For the past 8 to 10 years, the reform of business processes within the Department of Defense (DoD) has been a major focus of DoD leadership. The Defense Reform Initiative (DRI) was launched in November 1997, based on the recommendations of the Task Force on Defense Reform. The DRI is actually a collection of initiatives, mostly resulting from the issuance of Management Reform Memoranda or Defense Reform Initiative Directives, but also including other broad initiatives such as Defense Acquisition Reform and Logistics Reform.

The need to measure the results of these reform efforts is apparent. The Department has made a considerable investment to implement these initiatives, and it needs to know the return on that investment, not only to determine future investment but also to know what works and what doesn't. A precise knowledge of results will allow Department leadership to adjust planning, if necessary, and to ensure that future initiatives are effective. Performance measures have to be established; baselines identified; and performance data collected, verified, analyzed, and reported so that the Department will have the best opportunity to effectively document its success in Defense Reform. This will affect future reform efforts, because failure to reform carries a significant price tag.

The purpose of this project was to assess the state of performance measurement within the DRI and to work with the staff of the Defense Reform Initiative Office and a number of the initiative teams to help them validate existing measures, modify existing measures, or create a set of initial measures.

EXECUTIVE SUMMARY

Performance measurement has taken hold within DoD. The SECDEF's *Annual Report to the President and the Congress* now contains an appendix that outlines the Department's *Government Performance and Results Act Performance Plan*. Defense Agency Performance Contracts have been or are being established between the Directors of designated Defense Agencies and DoD Field Activities, the Principal Staff Assistants responsible for those agencies or activities, and the Defense Management Council. In addition, major initiatives such as the Defense Acquisition Reform Initiative include performance measures as part of their management approach.

In August 1999, the General Accounting Office released a report entitled *Improved Performance Measures Would Enhance Defense Reform Initiative*. That report indicated that most of the initiatives within DRI that the GAO examined had output measures that focus primarily on implementation progress or status instead of outcome measures that focus on results. The use of process measures such as output measures is understandable when an initiative is being implemented; however, once the initiative is established as a process or policy change, the results of that change should be measured to ensure that the desired outcome of the initiative is being achieved. Desired outcomes generally include process cost or cycle time reductions leading to greater efficiency, increased staff effectiveness levels through innovation or learning, or increased customer satisfaction.

It should be noted that the use of activity-based costing and management (ABC/ABM) within the DoD is limited, making it difficult to measure reductions in process cost. Use of methods such as standard costs (\$X savings per transaction) or gross measures (such as X percent reduction in staff—and resulting estimated labor dollar reductions) are alternatives, but may not be as accurate. Actions such as the memorandum from the USD(AT&L) dated 9 July, 1999, "Defense-Wide Implementation of Activity Based Management," are moving the Department in the right direction.

As part of the numerous information technology (IT) initiatives ongoing in the Department, efforts to manage process cycle time are receiving a boost. Identifying cycle time measures during the design phase of these initiatives and building in automated measurement and collection features relieve the workforce of the burden of having to perform measure-and-collect functions; however, information must still be validated, analyzed, reported, and acted upon.

EXECUTIVE SUMMARY

Current measures for workforce innovation and learning are limited, the most prominent use being the Acquisition workforce-related measures. Measures in the innovation and learning area should be outcome related—level of knowledge displayed/certified—and not just numbers of hours of classes attended. The use of these measures recognizes the fact that the Defense workforce is a critical part of the successful implementation of any initiative. It can also show the potential for the associated cultural change needed to make reform successful.

Customer-related measures appear in Defense Agency Performance Contracts and reflect the increasing adoption of customer-oriented goals within DoD. As DoD activities become more process-oriented, use of customer-focused goals and measures will continue to increase.

As stated previously, the use of performance measurement in DoD is increasing substantially. Recommendations associated with the various elements and initiatives appear throughout the report. In addition, here are four overarching recommendations:

1. Take a process approach. Many of the initiatives are directed at changing a specific core business process (acquisition, logistics, etc.). Identify the core process owner, and assign him or her responsibility for measuring the outcome of an initiative on his or her process. Outcome measurement for enabling initiatives, such as the introduction of IT, should be the responsibility of the process owner, not the IT enabler.

2. When multiple processes are involved, assign outcome measurement responsibilities. Some initiatives, such as IT, may impact multiple processes by changing the nature of the interface between them. Assign responsibility for the outcome measurement for that change to the receiver, where impact is best measured. Assignment for measuring the quality of the interface should be given to the office designing and developing the interface. For example, there are IT initiatives that change the interface and the flow of data between the procurement and financial management processes. If data sent by one process, such as procurement, produces reduced cycle times or lower costs in the receiving process, such as financial management, then the financial management process owner should report that outcome. If a third party, such as the DoD CIO, is responsible for the design and development of the automated interface, that office should collect customer satisfaction-related measures from procurement and financial management process staff, such as the user-friendliness of the new design.

EXECUTIVE SUMMARY

3. Build understanding and acceptance of performance measurement in the DoD workforce. The ability to collect performance information at the OSD level starts with the measurement and collection of performance data at the individual worker level. In an organization using a performance-based management approach, the support and the commitment of key staff throughout the organization are critical. Collecting data can prove difficult if key staff do not feel comfortable with performance measurement deliverables. There will be no accountability to “own measurement data,” and the responsibility to follow up on poor performance will be weakened. DoD should implement a comprehensive communications and training program related to performance measurement. This will serve as the foundation for the cultural change required to implement performance measurement as a key management tool within DoD.

4. Use performance-based management techniques. Performance measurement is a powerful tool that, when properly applied, can result in dramatic change in an organization. Outstanding results can be achieved when measures are tied to goals and when an effective system to measure, collect, validate, analyze, and report performance information is used as the basis for subsequent management actions. As DRI leads and Defense process owners strive to implement performance-based management, the executive leadership of the Department must continue to provide strong support to those efforts and the related cultural changes. By drawing upon the output of this performance-based management process, the executive leadership can continue to influence Defense Reform activities and can help realize the strategic goals of Defense Reform.

Information and Data: The information and data in this report were collected from January to March 2000 and are current for that period. Performance measures are almost always recommended, but, in some cases, there were no available data to support the creation of a baseline and periodic targets.